

STATE INFORMATION TECHNOLOGY SERVICES DIVISION

2014-2015 BUDGET REQUEST

February 2013

SITSD operates under an internal service fund described as: the financing of goods or services provided by one agency to other agencies of state government. With limited exceptions the legislature does *not appropriate* proprietary funds. The 1995 Legislature changed statute to allow expenditure of proprietary funds under general laws. The executive must report on all internal service funds; and the legislature approves a maximum rate programs funded with internal service funds can charge for their services. Therefore, the Legislature approves SITSD rates charged to other state agencies for services purchased and appropriates the cost of the service in the purchasing agencies budget.

SITSD RATES

SITSD offers nearly 200 services recouped through rates subject to a 30-day working capital cap. (See Rate Sheet)

RATE/WORKING CAPITAL

Cost of Service / Agency Utilization = Rate

Working Capital is *"the amount of cash remaining if all of the current assets were converted to cash at their book value and all of the current liabilities paid at their book value"*.

SITSD uses the Financial Transparency Model (FTM); a budget planning tool that aligns cost with service delivery. SITSD works with each agency to develop a service and budget plan. Rates are based on these plans.

FUNDING REQUESTS SUBJECT TO LEGISLATIVE APPROVAL

STATE AGENCIES			SITSD Rates		
The Legislature approves HB2 authority that provides agencies the ability to purchase SITSD service offerings			The Legislature approves the "fees and charges" that allows SITSD to recoup the cost of providing services		
	FY14	FY15		FY14	FY15
Agency Request	\$38,032,015	\$38,277,320			
Other*	\$1,524,240	\$1,278,935			
Total	\$39,556,255	\$39,556,255	SITSD RATE	--30-day working capital--	

*Other includes other entities/projections for growth in services.

SITSD REVENUES AND AGENCY EXPENDITURES

Although the Legislature approves rates, much like a business, if agencies choose not to use a given service, SITSD will not be able to recoup the cost of the service.

SITSD REVENUES/AGENCY EXPENDITURES

	FY2010	FY2011	FY2012	FY2013 (est.)	FY2014 (est.)	FY2015 (est.)
Projected Revenue	\$41,367,510	\$42,047,960	\$41,673,754	\$41,938,841	\$39,556,255	\$39,556,255
Actual Revenues Received						
Agency expend	\$40,127,440	\$39,051,039	\$35,562,779	\$37,885,447	\$38,032,015	\$38,277,320
Other	<u>1,324,963</u>	<u>1,284,406</u>	<u>1,460,367</u>	<u>1,270,512</u>	<u>1,524,240</u>	<u>1,278,935</u>
Total SITSD Revenues	\$41,452,403	\$40,335,445	\$37,023,146	\$39,155,959	\$39,556,255	\$39,556,255

HOW SITSD SPEND IS CONTROLLED

- SITSD's financials and rates are audited by Montana Legislative Auditors and Federal Auditors to make sure SITSD is meeting all state and federal requirements. Federal mandates prohibit SITSD from subsidizing services.
- The 30-day working capital prohibits SITSD from over collecting and accumulating excess fund balance.
- If agencies opt not to use our services for which they were appropriated, SITSD must reduce expenditures to offset loss.
- Economies of Supply and Demand – If our customers feel our services are too expensive or don't meet their business requirements they can go elsewhere, therefore:
 - Rates must be cost competitive
 - Service must deliver value

SUBCOMMITTEE ACTION

The subcommittee approved a motion to approve a 30-day working capital *and* capped the ability to collect fees at \$39,250,022 in FY2014 and \$39,249,150 in FY2015.

The motion in effect does the following:

- The cap is over \$660,000 short of anticipated service request – We will need to plan for and stop some services once the cap is met.
- Limits SITSD's ability to expand its customer base which in turns limits our ability to reduce rates to existing customers.
- Limits our ability to expand services to meet future service needs of existing customers.
- Limits our ability to increase services offerings associated with budget amendments authority for federal grants.
- May not be able to meet other approved legislative actions (HB10 or other bills with IT components) for new projects that rely on SITSD for services.